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ory Committee Audits

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SA Federal Credit Union welcomes the opportunity to provide the following  
n response to the NCUA's Advance Notice of Proposed Rulemaking on the  
Committee audits.

CU is committed to accuracy and transparency in financial reporting and supports  
existing regulations in part 715. The effectiveness of the existing part 715 is evident  
standing record of and the financial stability of the National Credit Union Share  
nd. Based on the expenditures of publicly traded companies under Sarbanes Oxley  
for the past year, the costs of attestation is enormous. The question then arises of  
ed benefit of the proposed rule. There has not been any reports of significant  
reporting, and the existing regulation is part 715 are appropriate given the limited  
complexity of credit union relative to other types of financial institutions and publicly  
panies.

e to the questions in the NCUA's Advance Notice of Proposed Rulemaking follows:

ould part 715 require, in addition to a financial statement audit, an "attestation on  
controls" over financial reporting above a certain minimum asset size threshold?  
why or why not.

not believe that an attestation on internal controls is necessary or appropriate for  
ions. The current requirements in part 715 provide adequate assurances on the  
cy of financial statement reporting. At many large credit unions, internal auditors  
y review and test controls over financial reporting. The NCUA has proven its ability  
ly examine its regulated credit unions and adjust the NCUSIF appropriately.

unions were required to obtain an attestation on internal controls, the costs  
ted with the external auditor attestation would be high. Credit unions would be  
o divert some of their valuable internal audit resources to the task of documenting  
controls. It is our understanding that the CPA audit expenses for many Securities  
hange Commission (SEC)-regulated entities more than doubled when attestation  
ded to the scope of the audit. Credit unions would face similar cost increases from  
ernal auditors. And the additional costs would likely outweigh any benefits NCUA or  
ions may receive from such attestations.

s. Mary Rupp  
ational Credit Union Association  
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Q2. What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting, given the additional burden on management and its external auditor? Explain the reasons for the threshold you favor.

As stated in our response to Question 1, we oppose extending this requirement to credit unions. However, if NCUA requires the attestation, we believe that the minimum asset size threshold should not be lower than \$1 billion. We understand that the threshold for banks and thrifts is \$1 billion, and therefore, it is reasonable that the threshold for credit unions should be equivalent or higher.

Q3. Should the minimum asset size threshold for requiring an "attestation on internal controls" over financial reporting be the same for natural person credit unions and corporate credit unions? Explain why.

Again, if attestation is required, then we believe the minimum asset size threshold should be the same for both natural person and corporate credit unions. We are not aware of any rationale for different thresholds.

Q4. Should management's assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting, (i.e. financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?

We believe that for consistency, management's assessments of the effectiveness of internal controls and the attestation by the external auditor should cover financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes.

Q5. Should the same auditor be permitted to perform both the financial statement audit and the "attestation on internal controls" over financial reporting, or should a credit union be allowed to engage one auditor to perform the financial statement audit and another to perform the "attestation in internal controls?" Explain the reasons for your answer.

We believe that credit unions should be allowed to decide whether to engage one or more auditors to perform both the financial statement audit and the attestation on internal controls over financial reporting. We do not believe that if a single auditor were to perform both the financial statement audit and the attestation that the validity would diminish. Allowing a credit union to engage a single auditor for both tasks may reduce costs associated with the attestation.

Q6. If an "attestation on internal controls" were required of credit unions, should it be required annually or less frequently? Why?

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attestation on internal controls were required of credit unions, the frequency should be more than annual. An annual frequency would allow credit unions to engage their internal auditors to perform the attestations at the same time as the external auditors perform the annual financial statement audits, making the attestation as cost-efficient as possible.

*If "attestation on internal controls" were required of credit unions, when should the requirement become effective (i.e. in the fiscal period beginning after December 15 of the next year)?*

If attestations on internal controls were required of credit unions, we believe credit unions should have at least 24 months from the date any final rule change is published until the beginning of the fiscal period for which the attestation is required to comply, which is the same time period that SEC-regulated entities were afforded to comply with the attestation requirements under the Sarbanes-Oxley Act.

*If credit unions were required to obtain an "attestation on internal controls," should we require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB's AS 2 standard that applies to public companies or to the AICPA's revised AT 501 standard that applies to non-public companies? Please explain your preference.*

If credit unions were required to obtain an attestation on internal controls, we believe they should be required to comply with the AICPA's standard because credit unions more closely resemble non-public companies.

*Should NCUA mandate COSO's Internal Control – Integrated Framework as the standard for all credit union management must follow when establishing, maintaining and evaluating the effectiveness of the internal control, structure and procedures, or should each credit union have the option to choose its own standard?*

Because the COSO standard was designed mainly for use by public companies and would impose an unnecessary burden on credit unions. We encourage NCUA to develop a standard, appropriate to credit unions. Further, we strongly urge that the NCUA allow for a draft of this standard for at least a 90-day public comment period.

*Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have a minimum level of experience or expertise in credit union, banking or other financial matters? If so, what criteria should they be required to meet and what should the minimum asset size threshold be?*

We believe that at least one Supervisory Committee member for credit unions with \$1 billion in assets should be required to have some level of experience or expertise in credit union banking, or other financial matters. However, credit union Board of Directors should be required to determine the appropriate level of experience or expertise required.

credit unions above a certain minimum  
their own outside counsel? If so, at what

nittee members to have the option of  
se, regardless of the credit union's asset

credit unions above a certain minimum  
ated with any large customer of the  
minimum asset size threshold?

ustomer" in this advance notice of  
CFR 363 Appendix A, Guideline 33 states:

son of any such entity) which, in the  
gnificant direct or indirect credit or other  
which likely would materially and  
or results of operations..."

xist in most credit unions. However,  
nmittee members should not have  
uding member and third-party vendor

ons 10, 11 and 12 above were required  
nion have difficulty in recruiting and  
numbers? If so, describe the obstacles

a negative impact on credit unions, in  
ve on their Supervisory Committees.  
would negatively impact credit union

r who performs a financial statement  
ed to meet just the AICPA's  
ed to also meet SEC's  
If not both, why not?

ors performing financial statement  
required to meet the AICPA's  
SEC's independence standards apply  
believe that they are appropriate or

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*Is there value in retaining the "balance sheet audit" in existing § 715.7(a) as an audit option for credit unions with less than \$500 million in assets?*

*I believe the threshold of \$500 million is sufficient to perform "balance sheet audits," given the limited size and complexity of these credit unions. Additional audit requirements for these credit unions would simply impose unwarranted cost burdens.*

*Is there value in retaining the "Supervisory Committee Guide audit" in existing § 715.7(c) as an audit option for credit unions with less than \$500 million in assets?*

*I believe NCUA should lower the threshold for "Supervisory Committee Guide Audits" in existing part 715 as an option for credit unions with less than \$100 million in assets. We believe this is a viable, appropriate option for those credit unions.*

*Should part 715 require credit unions that obtain a financial statement audit and/or attestation on internal controls" (whether as required or voluntarily) to forward a copy of the auditor's report to NCUA? If so, how soon after the audit period-end? If not, why not?*

*I believe that NCUA should review the financial statement audit and attestation, if obtained, in conjunction with the credit union's regularly-scheduled examination. Such a review would be efficient for both the credit union and the NCUA examiners. Special reporting requirements may be imposed if deemed necessary.*

*Should part 715 require credit unions to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditor in conjunction with services provided to the credit union? If so, how soon after the credit union receives it? If not, why not?*

*I believe that NCUA should review management letters, qualifications, and other reports issued by the credit union external auditor in conjunction with the credit union's regularly-scheduled examination.*

*If credit unions were required to forward external auditor's reports to NCUA, should part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to NCUA?*

*Supervisory Committees should have the opportunity to review all audit reports prior to submission to NCUA.*

*Existing part 715 requires a credit union's engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this target date be extended or shortened? What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?*

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We believe the target of 120 days in existing part 715 is sufficient. However, sometimes unforeseeable conditions arise during the audit that requires additional testing, which may delay the delivery date. Therefore, we believe that credit unions and external auditors should have some flexibility in meeting the target dates if justifiable circumstances prevent meeting the target date.

- 21) Q21. *Should part 715 require credit unions to notify NCUA in writing when they enter into an engagement with an auditor, and/or an engagement letter ceases by reason of the auditor's dismissal or resignation? If so in cases of dismissal or resignation, should the credit union be required to include reasons for the dismissal or resignation?*

We believe that it would be most efficient for NCUA to simply review any documents related to engagement, dismissal, or resignation, of an auditor during the credit union's regularly-scheduled examination.

- 22) Q22. *NCUA recently joined in the final Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters, 71 FR 6847 (Feb. 9, 2006). Should credit union Supervisory Committees be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?*

We support prohibiting Supervisory Committees from executing engagement letters that contain the limitations of auditor liability outlined in the final *Interagency Advisory*. However, we believe Supervisory Committees should have the option of waiving auditors' punitive damages liability, provided that those credit unions disclose the nature of such arrangements to the NCUA and in their annual financial report.

Sincerely,



Karl Yoneshige  
President & CEO